

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Southwest Michigan Library Cooperative	County Van Buren
Audit Date 9/30/04	Opinion Date 12/10/04	Date Accountant Report Submitted to State: 2/2/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Siegfried Crandall PC			
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		ZIP 49002-5599	
Accountant Signature 		Date 2/2/05	

Southwest Michigan Library Cooperative
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended September 30, 2004

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
Southwest Michigan Library Cooperative**

We have audited the accompanying financial statements of the governmental activities and the major fund of Southwest Michigan Library Cooperative as of and for the year ended September 30, 2004, which collectively comprise the Cooperative's basic financial statements as listed in the contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the statements applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Southwest Michigan Library Cooperative as of September 30, 2004, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9, the Southwest Michigan Library Cooperative has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of October 1, 2003.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Michigan Library Cooperative's basic financial statements. The required supplemental information listed in the table of contents is presented for the additional analysis and is not a required part of the basic financial statements of the Southwest Michigan Library Cooperative, but is supplementary information required by the Governmental Accounting Standards Board. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Southwest Michigan Library Cooperative has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

INDEPENDENT AUDITORS' REPORT (*Continued*)

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2004, on our consideration of the Southwest Michigan Library Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Siegfried Crandall P.C.

December 10, 2004

BASIC FINANCIAL STATEMENTS

Southwest Michigan Library Cooperative

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

September 30, 2004

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
ASSETS			
Cash	\$ 218,857	\$ -	\$ 218,857
Due from other governmental units	18,515	-	18,515
Inventory	425	-	425
Capital assets (net)	<u>-</u>	<u>216,855</u>	<u>216,855</u>
<i>Total assets</i>	<u>\$ 237,797</u>	<u>216,855</u>	<u>454,652</u>
LIABILITIES			
Accounts payable	\$ 7,550	-	7,550
Accrued liabilities	3,228	-	3,228
Deferred revenue	27,205	-	27,205
Long-term liabilities:			
Due within one year	-	15,658	15,658
Due after one year	<u>-</u>	<u>53,214</u>	<u>53,214</u>
<i>Total liabilities</i>	<u>37,983</u>	<u>68,872</u>	<u>106,855</u>
FUND BALANCE/NET ASSETS			
Fund balance - unreserved, undesignated	<u>199,814</u>	<u>(199,814)</u>	<u>-</u>
<i>Total liabilities and fund balance</i>	<u>\$ 237,797</u>		
Net assets:			
Investment in capital assets, net of related debt		161,319	161,319
Unrestricted		<u>186,478</u>	<u>186,478</u>
<i>Total net assets</i>		<u>\$ 347,797</u>	<u>\$ 347,797</u>
TOTAL FUND BALANCE			\$ 199,814
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets are not financial resources and they are not reported in the fund.			216,855
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.			<u>(68,872)</u>
TOTAL NET ASSETS			<u>\$ 347,797</u>

See notes to financial statements

Southwest Michigan Library Cooperative

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

Year ended September 30, 2004

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
EXPENDITURES/EXPENSES			
Recreation and culture	\$ 508,599	\$ 22,415	\$ 531,014
Capital outlay	19,797	(19,797)	-
Debt service:			
Principal	12,835	(12,835)	-
Interest	561	-	561
	<u>541,792</u>	<u>(10,217)</u>	<u>531,575</u>
<i>Total expenditures/expenses</i>			
	<u>541,792</u>	<u>(10,217)</u>	<u>531,575</u>
PROGRAM REVENUES			
Federal grants	40,088	-	40,088
State grants	266,263	-	266,263
Contributions from local units	185,279	-	185,279
Charges for services	39,981	-	39,981
	<u>531,611</u>	<u>-</u>	<u>531,611</u>
<i>Total program revenues</i>			
	<u>531,611</u>	<u>-</u>	<u>531,611</u>
NET PROGRAM REVENUES/(EXPENSES)	<u>(10,181)</u>	<u>10,217</u>	<u>36</u>
GENERAL REVENUES			
Interest	1,094	-	1,094
Other	27,642	-	27,642
Proceeds from issuance of long-term debt	16,117	(16,117)	-
	<u>44,853</u>	<u>(16,117)</u>	<u>28,736</u>
<i>Total general revenues</i>			
	<u>44,853</u>	<u>(16,117)</u>	<u>28,736</u>
EXCESS OF REVENUES OVER EXPENDITURES/ CHANGES IN NET ASSETS	34,672	(5,900)	28,772
FUND BALANCE/NET ASSETS - BEGINNING OF YEAR	<u>165,142</u>	<u>153,883</u>	<u>319,025</u>
FUND BALANCE/NET ASSETS - END OF YEAR	<u>\$ 199,814</u>	<u>\$ 147,983</u>	<u>\$ 347,797</u>
NET CHANGE IN FUND BALANCE			\$ 34,672
<i>Amounts reported in the statement of activities are different because:</i>			
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$17,218) exceeded capital outlays (\$16,117) in the current period.			(1,101)
Debt proceeds provide current financial resources to governmental funds, but increases long-term liabilities in the statement of net assets. Repayment of installment principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.			(3,282)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			<u>(1,517)</u>
CHANGE IN NET ASSETS			<u>\$ 28,772</u>

See notes to financial statements

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Southwest Michigan Library Cooperative (the Cooperative) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Cooperative. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Cooperative has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Cooperative's financial statements.

The Cooperative was established under the authority and provision of Michigan Public Act 89 to provide library services to its member libraries. The Cooperative derives its principal operating revenues from state grants and public library members that pass a portion of their state grants to the Cooperative.

b) Basis of accounting:

The statement of net assets and the statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by provider have been met.

The operating fund statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available if collected in the current period or within 60 days of the end of the current fiscal year end. Expenditures are generally recognized when the related liability is incurred.

c) Assets and liabilities:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

ii) Receivables - All receivables are estimated to be fully collectible as presented. Currently all receivables are due within one year.

iii) Inventory - The inventory consists of items for sale to the member libraries and is carried at cost, which approximates market. The costs are recorded as expenditures when consumed rather than when purchased.

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

iv) *Capital assets* - Capital assets, which include land, buildings, equipment and furniture, and vehicles, are defined by the Cooperative as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 - 40 years
Equipment and furniture	5 - 10 years
Vehicles	10 years

v) *Deferred revenues* - Deferred revenues represent member library assessments received in advance to be used for the next fiscal year and amounts not yet earned under contract.

vi) *Accumulated compensated absences* - The Cooperative's policy permits employees to accumulate an unlimited amount of earned, but unused, vacation and sick leave. Upon separation, the employees are paid for all unused vacation pay. Upon retirement, the employees are paid for all unused vacation pay and up to 90 days of sick leave.

A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Cooperative. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating Fund. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

The following schedule sets forth significant budget variations:

<u>Function</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Debt service - principal	\$ -	\$12,835	\$12,835
Debt service - interest	-	561	561

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Cooperative. Michigan Compiled Laws, Section 129.91, authorizes the Cooperative to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Cooperative's deposits are in accordance with statutory authority. At September 30, 2004, cash include deposits with a carrying amount of \$218,807 and a bank balance of \$225,269. Of the bank balance, \$71,569 is covered by federal depository insurance and \$153,700 is uninsured and uncollateralized.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Cooperative for the current year was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets being depreciated:				
Buildings and improvements	\$153,767	\$ -	\$ -	\$153,767
Equipment and furniture	62,770	16,117	(4,685)	74,202
Vehicles	<u>84,480</u>	<u>-</u>	<u>-</u>	<u>84,480</u>
<i>Subtotal</i>	<u>301,017</u>	<u>16,117</u>	<u>(4,685)</u>	<u>312,449</u>
Less accumulated depreciation for:				
Buildings and improvements	(31,196)	(4,567)	-	(35,763)
Equipment and furniture	(39,286)	(4,203)	4,685	(38,804)
Vehicles	<u>(12,579)</u>	<u>(8,448)</u>	<u>-</u>	<u>(21,027)</u>
<i>Subtotal</i>	<u>(83,061)</u>	<u>(17,218)</u>	<u>4,685</u>	<u>(95,594)</u>
<i>Total capital assets - net of depreciation</i>	<u>\$217,956</u>	<u>\$ (1,101)</u>	<u>\$ -</u>	<u>\$216,855</u>

NOTE 5 - LONG-TERM LIABILITIES:

Long-term liabilities, at September 30, 2004, consists of the following individual items:

\$4,995 installment purchase agreement for financing the acquisition of a copier. Payable in monthly installments of \$121, including interest at a rate of 15.8%, through April 2007.	\$ 3,062
\$27,869 installment purchase agreement for financing the acquisition of a van. Payable in monthly installments of \$464, with no interest, through February 2008.	18,580

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - LONG-TERM LIABILITIES (Continued):

\$27,865 installment purchase agreement for financing the acquisition of a van. Payable in monthly installments of \$464, with no interest, through February 2008. \$18,576

\$16,117 installment purchase agreement for financing the acquisition of computer equipment. Payable in monthly installments of \$399, including interest at a rate of 9.6%, through July 2008. 15,318

Total installment purchase contracts 55,536

Accrued compensated absences 13,336

Total noncurrent liabilities \$68,872

Long-term liability activity for the year ended September 30, 2004, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Installment purchase agreements	\$52,254	\$16,117	\$(12,835)	\$55,536	\$15,658
Compensated absences	<u>11,819</u>	<u>1,517</u>	<u>-</u>	<u>13,336</u>	<u>-</u>
<i>Total noncurrent liabilities</i>	<u>\$64,073</u>	<u>\$17,634</u>	<u>\$(12,835)</u>	<u>\$68,872</u>	<u>\$15,658</u>

At September 30, 2004, debt service requirements, with the exception of the compensated absences, were as follows:

	<u>Principal</u>	<u>Interest</u>
Year ended September 30:		
2005	\$15,658	\$1,734
2006	16,183	1,208
2007	16,155	633
2008	<u>7,540</u>	<u>171</u>
<i>Totals</i>	<u>\$55,536</u>	<u>\$3,746</u>

Southwest Michigan Library Cooperative
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:

The Cooperative maintains a defined contribution plan, specifically referred to as the Cooperative Fringe Benefit Plan (the Plan). The Plan is a non-trustee plan and the Cooperative does not administer the Plan assets. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Michigan state statute assigns the authority to establish and amend benefit provisions to the Cooperative Board of Trustees. All Cooperative employees employed for at least 32 hours per week on a regular basis are eligible to participate. Eligible employees may begin participating in the Plan after a six month probationary period. After the probationary period, the employee(s) will receive pro-rated fringe benefits retroactive to hire date. The Cooperative will contribute up to 32% of the employee's salary to the Plan. This may be health, life, disability, tax shelter annuity (it must be a 403(B) qualified plan), or another similar "fringe" program. All of the Cooperative's contributions for each participating employee (and interest allocated to the employee's account) are fully vested on the day the employee is eligible to participate in the Plan.

The Cooperative made required contributions of \$56,610 during the fiscal year ended September 30, 2004.

NOTE 7 - RISK MANAGEMENT:

The Cooperative is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Cooperative has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective October 1, 2003, the Cooperative implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. The Cooperative has applied the provisions of this statement, except for the management's discussion and analysis. In connection with the implementation of this statement, the following adjustments to beginning net assets has been made to reflect the cumulative effect of this accounting change:

Net assets, as previously reported (Operating Fund fund balance)	\$165,142
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund.	217,956
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the fund.	<u>(64,073)</u>
Net assets, as restated	<u>\$319,025</u>

REQUIRED SUPPLEMENTARY INFORMATION

Southwest Michigan Library Cooperative
BUDGETARY COMPARISON SCHEDULE - Operating Fund
Year ended September 30, 2004

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Federal grants	\$ 2,000	\$ 141,876	\$ 40,088	\$ (101,788)
State grants	266,267	266,263	266,263	-
Contributions from local units	146,722	148,979	185,279	36,300
Charges for services	41,750	55,800	39,981	(15,819)
Interest	1,575	1,075	1,094	19
Other	36,000	26,350	27,642	1,292
<i>Total revenues</i>	<u>494,314</u>	<u>640,343</u>	<u>560,347</u>	<u>(79,996)</u>
EXPENDITURES				
Recreation and culture:				
Headquarters	219,644	211,194	196,128	15,066
Computer service/interlibrary loan	217,915	230,915	222,258	8,657
Delivery services	46,455	46,455	46,497	(42)
Reed Act	6,000	22,666	22,293	373
Library Services and Construction Act	-	123,210	21,423	101,787
<i>Total recreation and culture</i>	<u>490,014</u>	<u>634,440</u>	<u>508,599</u>	<u>125,841</u>
Capital outlay	<u>21,805</u>	<u>20,255</u>	<u>19,797</u>	<u>458</u>
Debt service:				
Principal	-	-	12,835	(12,835)
Interest	-	-	561	(561)
<i>Total expenditures</i>	<u>511,819</u>	<u>654,695</u>	<u>541,792</u>	<u>112,903</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(17,505)</u>	<u>(14,352)</u>	<u>18,555</u>	<u>32,907</u>
OTHER FINANCING SOURCES				
Proceeds from issuance of long-term debt	-	-	16,117	16,117
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	<u>(17,505)</u>	<u>(14,352)</u>	<u>34,672</u>	<u>49,024</u>
FUND BALANCE - BEGINNING OF YEAR	<u>165,142</u>	<u>165,142</u>	<u>165,142</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 147,637</u>	<u>\$ 150,790</u>	<u>\$ 199,814</u>	<u>\$ 49,024</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Southwest Michigan Library Cooperative

We have audited the financial statements of the governmental activities and the major fund of the Southwest Michigan Library Cooperative (the Cooperative), as of and for the year ended September 30, 2004, which collectively comprises the Cooperative's basic financial statements and have issued our report thereon dated December 10, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



December 10, 2004